



Waverley Wealth News - Summer 2021

Happy New Year! As 2021 gets underway, we hope you and your families enjoy a safe, happy and prosperous year ahead. While we are not out of the woods yet, there is cause for optimism.

December was a busy month on the economic calendar. Global equity markets surged on optimism about the imminent rollout of several promising coronavirus vaccines and the prospect of another US stimulus package. And in a pre-Christmas miracle, the UK signed a last minute, post-Brexit trade agreement with the European Union.

In Australia, the government's Mid-Year Economic and Fiscal Outlook (MYEFO) projected a \$197.7 billion budget deficit this financial year, down from the \$213.7 billion forecast in the October Budget, as our economy recovers quicker than expected from the COVID-19 recession. Growth rebounded 3% in the September quarter, on continued support from low interest rates and government stimulus. Unemployment fell from 7% in October to 6.8% in November, which no doubt helped push consumer sentiment to a decade high in December.

Consumer confidence was also evident in the market for new detached homes, with sales up 15.2% in November, a decade high. High demand lifted residential property values 3% on average in 2020, with Melbourne the only market with falling prices. Regional prices (up 6.9%) outshone capital cities (up 2%). We also splurged on cars, with new car sales up 12.4% in the year to November and used cars sales up almost 30% in 2020. The Aussie dollar stood at US77c on New Year's Eve, up 10% over the year.

As in previous editions, attached are three articles that we hope you find both interesting and helpful. If you would like to discuss any of the topics covered, please don't hesitate to contact us on 0403 879 982 or email at - enquiries@waverleywealth.com.au

In the meantime, we hope you and your family remain healthy, happy and safe.
Kind regards,
Scott.



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2020 YEAR IN REVIEW

The year when everything was turned on its head

Just as we were recovering from the long drought and the worst bushfires on record, the global coronavirus pandemic took hold and changed everything.

Suddenly, simple things we took for granted, like going to the office or celebrating special occasions, were put on hold. While life is still not back to normal, Australia is in better shape financially than many people expected at the height of the economic shutdown.

Take superannuation. Far from being a wipeout, the average superannuation growth fund is on track to finish 2020 with a positive return of 3 per cent.ⁱ But it's been a wild ride.

The big picture

Globally, the US presidential election and Joe Biden's victory removed a major element of uncertainty overhanging global markets. As did the UK finally signing a post-Brexit agreement on trade with the European Union. However, trade tensions with China remain an ongoing concern.

The pandemic dragged an already sluggish global economy into recession, and we were not immune. In Australia, drought, bushfires, storms and the health crisis took their toll as we entered recession in for the first time in 28 years.

Final figures for 2020 are not in yet but an annual fall of 2.8 per cent is forecast, putting us in a better position than most developed nations.ⁱⁱ This is due in part to Australia's relative success at containing COVID-19, and massive financial support from Federal and State Governments and the Reserve Bank.

Interest rates lower for longer

After starting the year at 0.75 per cent, the official cash rate finished at an historic

low of 0.1 per cent. The Reserve Bank has indicated it will keep the cash rate and 3-year government bond rate at this level for three years to encourage businesses to invest and individuals to spend.ⁱⁱⁱ

While low interest rates make life difficult for retirees and others who depend on income from bank deposits, they gave share and property markets a boost in 2020 as investors looked for higher returns than cash.

Shares rebound strongly

In February/March when the scale of the health and economic crisis became evident, sharemarkets plunged around 35 per cent. As borders and businesses closed and commodity prices collapsed, investors rushed for safe-haven investments such as bonds and gold.

But it soon became apparent that there were economic winners as well as losers, with global technology and health stocks the main beneficiaries.

By the end of 2020, US shares were up 16 per cent, with the tech-heavy Nasdaq index up 48 per cent.^{iv}

Closer to home, the Australian All Ordinaries index was up 0.7 per cent, or 3.6 per cent when dividends are included.

Elsewhere, European markets were mostly lower reflecting their poor handling of the pandemic. While China and Japan performed strongly, up 14 and 16 per cent respectively.

Commodities boost the Aussie dollar

China's economic rebound was another factor in the Australian market's favour, with iron ore prices jumping 70 per cent.^v Rising iron ore prices and a weaker US dollar pushed the Aussie dollar up 10 per cent to close the year at US77c.^{vi}

At the other end of the scale, oil was one of the biggest losers as economic activity and transport ground to a halt. Oil prices fell more than 20 per cent despite OPEC producers restricting supply.

Property surprises on the upside

Despite dire predictions of a property market collapse earlier in the year, residential property values rose 3 per cent in 2020 and 6.6 per cent when rental income is included.^{vii}

Melbourne was the only city to record a price fall (down 1.3 per cent), with combined capital cities up 2 per cent.

The real action though was in regional areas where average prices lifted 6.9 per cent.

Looking ahead

As 2021 gets underway, Australia is inching back to a new normal on growing optimism about the global rollout of vaccines.

Our economy is forecast to grow by 5 per cent this year, but there are bound to be bumps along the way.^{viii} In the meantime, the government stands ready to continue stimulus measures to support jobs and the economy.

After the year that was, a return to something close to normal can't come quick enough.

i <https://www.chantwest.com.au/resources/november-surge-drives-funds-into-black-for-2020>

ii https://www.commsec.com.au/content/dam/EN/ResearchNews/2021Reports/January/ECO_Insights_040121-Year-in-Review-Year-in-Preview.pdf

iii <https://www.rba.gov.au/>

iv <https://tradingeconomics.com/stocks>

v <https://tradingeconomics.com/commodities>

vi <https://tradingeconomics.com/currencies>

vii <https://www.corelogic.com.au/sites/default/files/2021-01/CoreLogic%20Home%20Value%20Index%20Jan%202021%20FINAL.pdf>

viii <https://tradingeconomics.com/australia/gdp-growth-annual>

Getting retirement plans *back on track*

After a year when even the best laid plans have been put on hold due to COVID-19, people who were planning to retire soon may be having second thoughts. You may be concerned about a drop in your super balance, insecure work, or an uncertain investment outlook.

Whatever your circumstances, a financial tune-up may be required to get your retirement plans back on track. You may even find you're in better financial shape than you feared, but you won't know until you do your sums.

The best place to start is to think about your future income needs.

What will retirement cost?

Your retirement spending will depend on your lifestyle, if you are married or single, whether you own your home and where you want to live.

Maybe you want to holiday overseas every year while you are still physically active or buy a van and tour Australia. Do you want to eat out regularly, play golf, and lead an active social life; or are you a homebody who enjoys gardening, craftwork or pottering in the shed?

Also think about the cost of creature comforts, such as the ability to upgrade cars, computers and mobiles, buy nice clothes, enjoy good wine and pay for private health insurance.

It's often suggested you will need around 70 per cent of your pre-retirement income to continue living in the manner to which you have become accustomed. That's because it's generally cheaper to live in retirement, with little or no tax to pay and (hopefully) no mortgage or rent.

Draw up a budget

To get you started, the ASFA Retirement Standard may be helpful.

It provides sample budgets for different households and living standards.

ASFA suggests singles aged 65 would need around \$44,183 a year to live comfortably, while couples would need around \$62,435.ⁱ Of course, comfort is different for everyone so you may wish to aim higher.

To put these figures in perspective, the full Age Pension is currently around \$24,550 a year for singles and \$37,013 for couples.ⁱⁱ As you can see, this doesn't stretch to ASFA's modest budget, let alone a comfortable lifestyle, especially for retirees who are paying rent or still paying off a mortgage.

Then there is the 'known unknown' of how long you will live. Today's 65-year-olds can expect to live to an average age of around 85 years for men and 87 for women. The challenge is to ensure your money lasts the distance.

Can I afford to retire?

Once you have a rough idea what your ideal retirement will cost, you can work out if you have enough super and other savings to fund it.

Using the ASFA benchmark for a comfortable lifestyle, say you hope to retire at age 65 on annual income of \$62,000 a year until age 85. Couples would need a lump sum of \$640,000 and singles would need \$545,000. This assumes you earn 6 per cent a

year on your investments, draw down all your capital and receive a part Age Pension.

Add up your savings and investments inside and outside super. Subtract your debts, including outstanding loans and credit card bills, to arrive at your current net savings. Then work out how much you are likely to have by the time you hope to retire if you continue your current savings strategy.

There are many online calculators to help you estimate your retirement balance, such as the MoneySmart super calculator.

Closing the gap

If there's a gap between your retirement dream and your financial reality, you still have choices.

If you have the means, you could make additional super contributions up to your concessional cap of \$25,000 a year. You may also be able to make after-tax contributions of up to \$100,000 a year or, subject to eligibility, \$300,000 in any three-year period.

You might also consider delaying retirement which has the double advantage of allowing you to accumulate more savings and reduce the number of years you need to draw on them.

These are challenging times to be embarking on your retirement journey, but a little planning now could put you back in the driver's seat.

Get in touch if you would like to discuss your retirement strategy.

i <https://www.superannuation.asn.au/resources/retirement-standard>

ii <https://www.servicesaustralia.gov.au/individuals/services/centrelink/age-pension/how-much-you-can-get>

Holidays at home, in our very own backyard



For many Aussies with the travel itch, the COVID-19 pandemic put an end to flying to far-off destinations or even venturing beyond your own city or state. While we may be grounded for some time, fortunately you can still enjoy novel and fun adventures closer to home. You might be surprised to find out what is within reach. And at the very least, start planning trips for the coming months ahead.

History buffs

If you can't make it all the way to England to see Stonehenge, Esperance offers a full size replica in Western Australia. Esperance Stonehenge has been designed to look just like the original. The stones have a local touch though, made from Esperance Pink Granite, and the layout cleverly takes into account the Summer and Winter Solstices in the Southern Hemisphere. Once you've marvelled at the rock formation, be sure to check out other Esperance sights such as the Pink Lake and array of pristine beaches.

For wine lovers and foodies

So France has Bordeaux and Spain has Priorat, but we have the Barossa Valley. The world-famous wine producing region in South Australia should be on every wine lover and foodie's travel list. Less than an hour outside of Adelaide, the Barossa is home to over 150 wineries and 80 cellar doors – think Penfolds, Wolf Blass, Jacob's Creek and plenty more. Clearly you'll want to pace yourself and there is plenty to explore in the three main towns: Tanunda, Nuriootpa and Angaston. The restaurant scene is thriving in the Barossa so book in advance to ensure you get a seat at the table.

Adrenaline junkies

Be like a bird among the trees at Victoria's Otway Fly Treetop Adventures. The 25m high and 600m long walkway gives incredible views over the Otways rainforest. For those wanting something more daring, the 47m tall Spiral Tower sways in the breeze so you can feel one with nature. Ziplining will find you suspended 30m from the forest floor – while it's not as daring as Zip 2000 in South Africa's Sun City, it's an exhilarating experience not to be missed.

Fitness fanatics

Thousands of hikers from across the world descend on Tasmania's Overland Track every year. It's easy to see why this bushwalking track is so popular, with Cradle Mountain-Lake St Clair National Park being part of the incredible Tasmanian Wilderness World Heritage Area. It's not suitable for the novice walker, being a six day hike which is 65km one way, with rocky and steep sections. But you'll be rewarded by breathtaking views and alpine flora and fauna. If plans to do the Appalachian Trail in the US or the Tour du Mont Blanc across Europe were shelved, head to Tassie instead.

Beach goers

Australia has some of the best beaches in the world, so instead of Hawaii, head to the Gold Coast. Currumbin Beach is regularly voted Queensland's cleanest beach and makes for a picture perfect holiday spot – just think of all those amazing Instagram pics you can share! Known as The Alley, the entrance to the ocean is patrolled by lifeguards and is a great place for beginner surfers and swimmers. Whether you're up for a surf, swim or just want to lay on the sand, Currumbin Beach is the place to be during the summer.

Waterfall chasers

Dreaming of Niagara Falls? Why not head to Fitzroy Falls instead? Located within Morton National Park in the Southern Highlands, it's only two hours out of Sydney. The waterfall descends 81m into picturesque Kangaroo Valley. As well as the beautiful waterfall, there are a range of hiking trails you can embark such as the East Rim and West Rim walking tracks. There are great picnic spots making for a perfect day trip, as well as a nearby campground if you want to stay put to soak up the ambience.

Travel will look different for some time to come. Holidays at home can provide an opportunity to experience the wonderful, diverse country we call home. As you head home with great memories, stories to share and spectacular photos you'll also be leaving a lasting impact on the local tourism industry, who need the support on their road to recovery.